Financial Report

OF

GEO. A. HORMEL & COMPANY

AUSTIN, MINNESOTA

for the

Fiscal Year Ended October 29, 1949

OFFICERS

Jay C. Hormel	Chairman of the Board
H. H. Corey	President
R. F. Gray	Executive Vice President
R. H. Daigneau	Vice President
Park Dougherty	Vice President
Clarence A. Nockleby	Vice President
J. L. Olson	Vice President
T. H. Hocker	Vice President
R. D. Gower	Vice President and Controller
Geo. W. Ryan	Secretary
M. F. Dugan	Treasurer

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DIRECTORS

R. S. Banfield

S. D. Catherwood

H. H. Corey

R. H. Daigneau

Park Dougherty

M. F. Dugan

R. D. Gower

R. F. Gray

T. H. Hocker

Jay C. Hormel

Clarence A. Nockleby

J. L. Olson

Austin, Minn.
December 1, 1949

To the Stockholders of
Geo. A. Hormel & Company:

The earnings statement and balance sheet of your Company for the year ended October 29, 1949, is submitted herewith.

Stockholders' investment amounts to $22,182,166. The Company has a long term obligation of $6,000,000, payable serially over a period of seven years. Otherwise, there was no borrowed money nor other indebtedness at the year end beyond current and customary bills. The net quick assets (working capital) amount to $13,393,920.

During the year the prices of meat and livestock have declined drastically. As has been its custom in the past, the Company continues to price its inventory at the lower of cost or market. Hence, in spite of following a policy of keeping inventories at a minimum, this year has brought us substantial inventory losses. Falling prices, and in certain departments narrower margins because of the anticipation of them, together with unusually high operating costs in certain plants and departments which were under construction, expansion, or rearrangement and modernization during the year, combined to reduce the net earnings from $3,692,677 or $7.22 per share of common last year, to $1,650,023 or $3.23 per share of common this year. (The above figures on earnings per share are on the basis of the total of shares which became outstanding upon the reclassification of the common stock in January, 1949. At that time, each share of no par common stock was reclassified into one and one-tenth shares of $15 par value common stock.)

In tonnage, total sales of products for the year amounted to 737,925,826 pounds, which is an increase of 6 per cent over last year.

In dollars, net sales amounted to $242,060,922, which is 8.8 percent less than last year, reflecting the lower prices prevailing.

The construction, expansion, and rearrangement referred to include a number of important improvements in the Company's facility for doing business.

Certain major rearrangements in the Austin plant have provided more capacity and increased efficiency in our manufacturing departments. An expansion in our plants at Mitchell, South Dakota, and Dallas, Houston, and San Antonio, Texas has been completed, and expansion in our plant at Seattle, Washington has begun. Construction of our new plant at Fremont, Nebraska has been substantially completed, and construction of a new plant at San Francisco has been started to replace our present branch which we had under lease at a satisfactory rental with several years to run, but which the construction of a super highway through the premises has forced us to abandon.

Certain canning facilities were moved from Austin to Paynesville, Minnesota. Others were moved from Houston, Texas to Owatonna, Minnesota. Both have been materially enlarged. Both have been located in plants of suppliers of important raw materials in the canning operations involved, effecting substantial savings in handling costs, and providing year-round use of facilities in two complementary seasonal businesses—a mutually advantageous arrangement, which applies to both manufacturing and warehousing, and which gives us materially increased capacity without corresponding capital investment.

As pointed out in our statement a year ago, the plant facilities we had in use then were substantially those which had been provided by plowing back the earnings of the Company during the twenty years prior to 1941. During those twenty years, the average profit amounted to 2.82 cents per dollar of sales. That is double the rate of profit that we enjoyed even a year ago (1.42 cents) when our earnings were well ahead of the industry average. It is four times the 0.72 cents per dollar of sales which we were able to earn this year.

As we learn to do that additional processing which adds more value to the farmers' livestock and gives the consumer more uniformity, economy and convenience, a considerable expansion in plant and working capital is required. As we learn new and better and more economical methods, the costs of obsolescence and replacements become substantial.

To pay the cost of facilities recently acquired, and to provide the additional working capital needed for the operation of those facilities, we have not been able to depend on earnings plowed back into the business. Instead, to reimburse the Company's treasury for those increased capital investments, your Board of Directors found it expedient to borrow a substantial amount of money on a long term basis.

On September 1, 1949, the Company borrowed from two of its principal banks, $6,000,000. This loan is on the Company's unsecured promissory notes, payable serially over a period of seven years; $600,000 on September 1, 1950, and $900,000 on each September 1st for the next six years. Inasmuch as it is money due within a year, the $600,000 for 1950 is shown in our current liabilities. The balance of $5,400,000 appears as a new item under the heading "Long Term Debt". This long term loan has materially increased our working capital.

With our expansion program completed, and with substantially all of our improved processing facilities in operation, your Company is in position to accept the increased numbers of livestock as they become available and to fully process the meats and by-products which they yield.

H. H. Corey
President

BALANC

Geo. A. Hormel & Comp

October

ASSETS

		CURRENT ASSETS	$23,220,938
Cash		$ 4,200,722	
Accounts receivable less allowance of $100,000		7,313,904	
Inventories of products, livestock, packages and materials—at lower of cost or market		11,706,312	
		DEFERRED CHARGES AND OTHER ASSETS	432.871
Unexpired insurance premiums		$ 356,990	
Sundry securities, notes and accounts, less allowance of $30,000		75,881	
		PROPERTY, PLANT AND EQUIPMENT	13,755,375
At cost:			
Land		$ 266,643	
Buildings and equipment	$20,582,281		
Less allowances for depreciation and amortization	7,653,637	12,928,644	
Inventory basis—movable equipment		560,088	
			$37,409,184

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29, 1949

LIABILITIES

CURRENT LIABILITIES		$ 9,827,018
Accounts payable and accrued expenses	$ 3,655,289	
Salaries, wages, and profit sharing payments	3,537,420	
Income taxes withheld from employees and pay roll taxes	417,218	
Dividends payable November 15th	341,268	
Federal taxes on income—estimated	1,275,823	
Portion of bank term loan due within one year	600,000	
LONG TERM DEBT		5,400,000
Unsecured notes due banks (less $600,000 due September 1, 1950, shown in current liabilities) $900,000 payable annually on September 1st		
STOCKHOLDERS' INVESTMENT		22,182,166
Preferred stock, cumulative, par value $100 per share: Authorized 48,935 shares; Issued and outstanding—14,454 shares—Series A. 6%, callable at $105 per share	$ 1,445,400	
Common stock, par value $15 per share: Authorized 600,000 shares, issued and outstanding 511,500 shares including 160 shares represented by unexchanged scrip	7,672,500	
Earnings reinvested in the business, in addition to amounts transferred to common stock ($1,871,884 free from restrictions as to payment of cash dividends on common stock under long term debt agreement)	13,064,266	
		$37,409,184

PROFIT AND LOSS STATEMENT

Geo. A. Hormel & Company

Fiscal year ended October 29, 1949

SALES (less returns and allowances)		$250,301,573	
Less freight and express		8,240,651	
NET SALES			$242,060,922
COSTS, EXPENSES AND TAXES (Itemized below)			240,324,175
MATERIAL COSTS AND EXPENSES		$210,852,770	
Cost of products sold, selling, administrative and general expenses, exclusive of items shown separately	$209,136,889		
Allowance for depreciation and amortization	1,353,833		
Sundry charges (including interest expense of $325,785) less sundry income and credits	362,048		
TOTAL WAGE COSTS		27,526,978	
Wages and salaries, including joint earnings	$ 27,108,053		
Contribution to employees' profit-sharing trust	54,811		
Unemployment and federal old age benefit contributions	364,114		
TOTAL TAXES		1,944,427	
State income, property and other taxes	$ 744,427		
Federal taxes on income for the year—estimated	1,200,000		
		NET EARNINGS	$ 1,736,747

EARNINGS REINVESTED IN THE BUSINESS

Geo. A. Hormel & Company

Fiscal year ended October 29, 1949

Balance October 31, 1948			$14,606,710
Add net earnings for the year			1,736,747
			$16,343,457
Deduct:			
Cash dividends:			
On preferred stock—$6.00 per share	$ 86,724		
On common stock—$2.50 per share	1,278,139	$1,364,863	
Transfer to common stock on January 27, 1949, incident to reclassification of common stock from no par value to par value of $15 per share and issuance of $1\frac{1}{10}$th shares for each share then outstanding		1,914,328	3,279,191
Balance October 29, 1949			$13,064,266

ACCOUNTANTS' REPORT

To the Board of Directors
Geo. A. Hormel & Company
Austin, Minnesota

We have examined the balance sheet of Geo. A. Hormel & Company as of October 29, 1949, and the related statements of profit and loss and earnings reinvested in the business for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss and earnings reinvested in the business present fairly the financial position of Geo. A. Hormel & Company at October 29, 1949, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Minneapolis, Minnesota
November 25, 1949